(d) *Failure to elect.* If a group fails to make an election in its first consolidated return, or any other election, in accordance with paragraph (c) of this section, the method prescribed under paragraph (a)(1) of this section shall be applicable and shall be binding upon the group in the same manner as if an election had been made to so allocate.

(e) *Definitions.* Except as otherwise provided in this section, the terms used in this section shall have the same meaning as provided in the regulations under section 1502.

(f) *Example.* The provisions of this section may be illustrated by the following example:

Example. Corporation P is the common parent owning all of the stock of corporations S1 and S2, members of an affiliated group. A consolidated return is filed for the taxable year ending December 31, 1966, by P, S1, and S2. For 1966 such corporations had the following taxable incomes or losses computed in accordance with paragraph (a)(1)(ii) of this section:

P	0
S1	$2,000
S2	(1,000)

The group has not made an election under paragraph (c) of this section or paragraph (d) of §1.1502–33. Accordingly, the method of allocation provided by paragraph (a)(1) of this section is in effect for the group. Assuming that the consolidated taxable income is equal to the sum of the members taxable income and losses, or $1,000, the tax liability of the group for the year (assuming a 22-percent rate) is $220, all of which is allocated to S1. S1 accordingly reduces its earnings and profits in the amount of $220, irrespective of who actually pays the tax liability. If S1 pays the $220 tax liability there will be no further effect upon the income, earnings and profits, or the basis of stock of any member. If, however, P pays the $220 tax liability (and such payment is not in fact a loan from P to S1), then P shall be treated as having made a contribution to the capital of S1 in the amount of $220. On the other hand, if S2 pays the $220 tax liability (and such payment is not in fact a loan from S2), then S2 shall be treated as having made a distribution with respect to its stock to P in the amount of $220, and P shall be treated as having made a contribution to the capital of S1 in the amount of $220.

[T.D. 6962, 33 FR 9655, July 3, 1968, as amended by T.D. 7825, 42 FR 64694, Dec. 28, 1977; T.D. 7728, 45 FR 72650, Nov. 3, 1980; T.D. 8560, 59 FR 41675, Aug. 15, 1994; T.D. 8597, 60 FR 36680, July 18, 1995; T.D. 8677, 61 FR 33325, June 27, 1996]

CERTAIN CONTROLLED CORPORATIONS

§1.1561–0 Table of contents.

This section lists the table of contents for §§1.1561–1 through 1.1561–3.

[T.D. 9476, 74 FR 68532, Dec. 28, 2009]

§1.1561–1 General rules regarding certain tax benefits available to the component members of a controlled group of corporations.

(a) *In general*—(1)—*Limitation.* Part II (section 1561 and following) of subchapter B of chapter 6 of the Internal Revenue Code (Code) (part II) provides rules to limit the amounts of certain specified tax benefit items of component members of a controlled group of